

**How Organizational Structure Affects Recruitment: Benefit Corporations and
Organizational Attractiveness**

Honors Undergraduate Thesis

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By

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Abstract

In the past few years, there has been a rise of hybrid organizations, known as social enterprises or Benefit Corporations, that combine the organizational form of for-profit firms and the social objectives of non-profit organizations. These hybrid organizations allow companies to produce and maintain profits, while pursuing social initiatives. Recent legislation has introduced “Benefit Corporations” as legal entities in 34 states. In addition to being viewed as socially responsible by stakeholders, a strong motivation for companies to become benefit corporations is to attract higher quality talent. To better understand a potential employee’s interest in these benefit corporations, a choice-based conjoint analysis was used to investigate the attributes graduating business students value when selecting a job offer, such as salary, size, legal form, and industry. Responses were modeled using a hierarchical multinomial logit model, and results show that when compared to jobs from both non-profit and for-profit organizations, students show a weak preference for benefit corporations with open-hiring policies, and a strong preference for benefit corporations with either a donation-based structure or an environmental focus. In addition, the coefficients on control factors, specifically size and salary, align with expectations from previous research in the field. Further analysis was completed to include an investigation of the upper level of the model to determine minor differences across gender and major. Research in this field is fundamental to the expansion of benefit corporations, providing evidence of the return on investment from a focus on social mission and creating shared value.

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Introduction

Hybrid organizations, or social enterprises, that combine the organizational form of for-profit businesses and non-profits have continued to gain popularity in the last decade. These hybrid organizations allow companies to produce and maintain profits, while pursuing social or educational goals. Recent legislation has introduced “Benefit Corporations” in 34 states. These legal entities protect company’s mission throughout capital raises, create more flexibility when evaluating exit options, and prepare businesses to lead a mission-driven life post initial public offering.

One of the listed motivations for companies to become benefit corporations is the ability to attract higher quality talent. While it has been proven that candidates are attracted to companies based on mission statements and values that align with their own beliefs, there has been very little focus on social enterprises or benefit corporations themselves, and if they have a greater ability to attract and obtain top talent, over both non-profits or typical for-profit companies.

In my research, I set out to investigate the organizational attractiveness of benefit corporations and compare that to the attractiveness of non-profits and typical for-profit businesses. This research will either validate or challenge the assumptions the legislators and supporters of benefit corporations have made regarding recruiting and social enterprises’ attractiveness. The results of this research will also give companies that are considering becoming a benefit corporation more of an understanding of the benefits and challenges that may come with this change.

Literature Review

Researchers has previously determined that prospective employees are attracted to firms that have strong corporate social performance, and that these companies have a competitive advantage while recruiting a workforce (Turban and Greening, 1997, 2000). Specifically, corporate social performance yields in attracting top talent, or high performing students with a high level of job choice (Albinger, 2000). This is important because it shows that prospective employees value social consideration and impact while selecting a company as a future employer. This research stands to be valuable, thanks to the fact demographic and economic factors have created a “war for talent”, increasing the difficulty to attract and obtain top talent (Handfield-Jones and Axelrod, 2000), and becoming a benefit corporation may give companies a competitive advantage.

Furthermore, it has been determined that perceived work environment is one of the largest determinants of organization attractiveness (Chapman, 2005). This determination could predict why students would be more attracted to one organizational structure over another, for the perceived culture. This could increase attractiveness to one form of legal entity because the perceived environment will be warmer and more accepting of growth and education, specifically for recent graduates.

It is important to determine which factors influence a student’s attractiveness to a firm prior to applying or interviewing. It has been shown that pre-interview attractiveness to a firm is a stronger predictor of offer acceptance than recruiter behaviors during the interview (Turban, 1998). This emphasizes the importance of understanding what factors initially attract top talent.

Benefit corporations have been defined as hybrid organizations or social enterprises that combine the organizational forms of both business and charity (Battilana, Lee, 2014).

This definition is utilized throughout this paper and research. To build on this definition, the benefit corporation, is a for-profit company that may be a legal tax entity of L3C, and has a mission to significantly further one or more charitable or educational purposes (Reiser, 2012).

Previous research has proposed that social and commercial entrepreneurship have varying abilities to use incentives to retain or attract employees (James, 2006). I counter this argument, because while the company may not maintain the same financial standing, the paper did not explore how the mission affect's prospective employees' attractiveness to the firm.

In general studies, it has been shown that there are various factors that attract potential employees to an organization. It was determined that sex, race, year in school and GPA are factors that affect a potential firm's attractiveness to a potential employee (Cable, Judge 1996). Potential employees believe that these factors affect their ability to obtain higher positions, and therefore affect the firm's attractiveness to the potential employee. To control for this factor, I will not include company names in my study to prevent participants from self-selecting out of attractiveness to high-profile companies. I will also not prompt for students to think about sex, race, year or GPA prior to answering the survey questions to avoid any self-selection bias.

It also has been shown that prospective applicants are more attracted to large firms and firms with greater name recognition (Lievens, Decaesteker, Coetsier, Gerinaert, 2001). This is important to understand because people tend to associate non-profit or mission-based companies as smaller organizations. To prevent these underwritten stereotypes from affecting my research, I am using firm size as an organizational attribute to track the

influence size has on the respondents. This allows these companies to remain equal without previous associations affecting the results.

Hypothesis

I hypothesize that students/prospective employees will be more attracted to benefit corporations when compared to both non-profits or for-profit companies. I predict that this is because potential employees will value the social mission of these organizations—and receive moral satisfaction from the social contributions of their work, as opposed to a typical for-profit company. And, I predict that prospective employees will value the innovative approach, and view the for-profit structure of benefit corporations as financially sustainable, leading to continued employment and growth, as opposed to non-profit organizations.

Methodology

In order to determine students' attractiveness to benefit corporations, compared to non-profits and typical for-profit businesses, we surveyed 148 fourth-year students in a large public university, The Ohio State University. These were mainly students that will be receiving a Bachelors in Business Administration within the next year and have completed the majority of their class work. These students were motivated to take the survey by a promised incentive: the opportunity to be entered into a drawing for two \$75 Amazon gift cards. They did not need to finish the survey to be qualified for the entry.

The survey utilized Choice Based Conjoint analysis (CBC). This method mimics the real scenario potential employees face of comparing multiple companies before determining which jobs to apply for and to accept. The students received a randomized version of the survey, each containing 14 discrete choice tasks. These tasks will contain 3 choices or "company options" and a "none of the these" option. Students were prompted to select their preferred company based on the attributes they are given. The following attributes will be listed for each company description: industry, legal structure, salary and company size. The first listed attribute was also randomized for each participant. An example of a choice-task can be seen in Figure 1.

The industry options:

- Consumer Packaged Goods
- Financial Services
- Healthcare
- Media & Entertainment
- Retail

The organizational form options:

- Nonprofit Corporation
- For-Profit Corporation
- Benefit Corporation (for-profit company with environmental focus)
- Benefit Corporation (for profit company with buy-one, give-one donation structure),
- Benefit Corporation (for-profit with open hiring policies—regardless of background)

The Salary assumption options:

- Average
- 3% more than average
- 5% more than average
- 3% below average
- 5% below average

The company size options included:

- Large (500+ Employees)
- Medium(100-500 Employees)
- Small (Less than 100 employees).

At the end of the survey, we collected gender and basic demographic information including if they are graduating within a year and what is their specialization/ major.

The participants submitted their email to be entered into the raffle for the gift card. However, this was be completely separated from their responses on Qualtrics and their results remained anonymous.

Data Analysis

The responses were modeled using a hierarchal multinomial logit model. The model utilized Markov Chain Monte Carlo (MCMC), and the posterior distribution for each parameter was compared across their attribute. The model for the lower level, $V_{jh} = \beta_h X_j + \beta_h X_{2j} + \varepsilon_{jh}$, utilizes the individual coefficients (β) for each attribute (X).

Further demographics, including gender and major were applied to the upper level of the model: $\beta_{ih} = \delta_{i1} + \delta_{i2} Z_{2h} + \delta_{i3} Z_{3h} + \varepsilon_{jh}$. In this level, the individual coefficients (β) were determined by the upper level coefficients (δ), and utilize conditional dummy variables (Z) and account for error (ε).

Results

The posterior distribution for each parameter was compared across their attribute. As seen in Figure 2, the salary distribution followed previous research in the field as well as expectations and shows that respondents consistently favored higher salary assumptions.

The posterior draws for the Legal Entity attribute can be seen in Figure 3. These draws revealed that when compared to the null of for-profit companies, respondents significantly favored Benefit Corporations with and Environmental focus, and a strong preference for Benefit Corporations with a Buy One, Give One donation structure. They also showed slight preference for Benefit Corporations with Open Hiring Policies.

The posterior draws for the Industry attribute revealed that when compared to the null industry, retail, respondents heavily preferenced Media and Entertainment. The draws can be seen in Figure 4, showing that they also preferenced the Financial Services industry, followed closely by Healthcare and Consumer Packaged Goods.

Results surrounding company size, as seen in Figure 5, align with previous research, with strong preference seen for larger companies.

Further examination of demographics in the upper level revealed that Female respondents preferenced the Consumer Packaged Goods Industry, as seen in Figure 6. The upper level also showed that Finance and Logistics specializations selected towards Benefits Corporations when compared to their peers. In addition, it was also noted that Human Resource specializations significantly selected against the Healthcare Industry.

Implications and Future Research

These results indicate that potential employees are attracted to Benefit Corporations when compared to both non-profit and for-profit companies. This will help strengthen the argument for legislators who are currently introducing legislation for this new form of legal entity in the remaining 16 states. The spread of Benefit Corporations will give a growing number of job seekers the opportunity to pursue both social mission and stability at the same time.

It also highlights the future job market's focus on environmental factors. Above all else, respondents were attracted to organizations that focused on sustainable and environmental factors. This is important for companies to know and indicates the importance of funding internal programs dedicated to these goals.

One concern surrounding the research is that participants may have not fully understood the meaning of Benefit Corporations before the survey. While we did give definitions for all attributes, the focus on Benefit Corporations could have caused inflated focus on the choice tasks with Benefit Corporations. This could have affected the results of the survey, and future research in this area should be mindful of this bias.

Future research should be done to investigate the determinants for why respondents significantly preferenced benefit corporations. There are many factors that influence job decisions, and we do not know why the benefit corporations were more attractive, and what assumptions respondents made about the companies that the choice-tasks represent.

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Appendices

Figure 1- Sample Choice-Task

If offered a role in your field from the following companies, which would you choose?

	Company A	Company B	Company C
Salary	5% more than average	3% more than average	5% more than average
Legal Structure	Benefit Corporation (for-profit company with buy-one, give-one donation structure)	Nonprofit Corporation	Nonprofit Corporation
Industry	Consumer Packaged Goods	Financial Services	Healthcare Systems & Products
Company Size	Small (Less than 100 employees)	Medium (100-500 employees)	Large (500+ employees)

Which would you choose?

Company A Company B Company C I would not choose any of these.

☐ ☐ ☐ ☐

Figure 2 — Salary

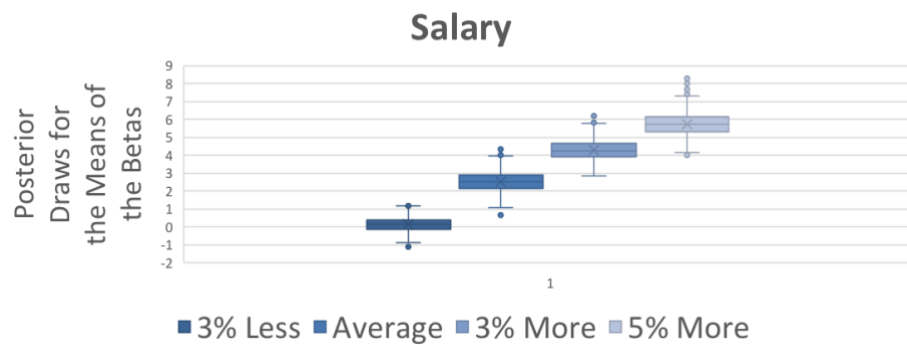


Figure 3 — Legal Entity

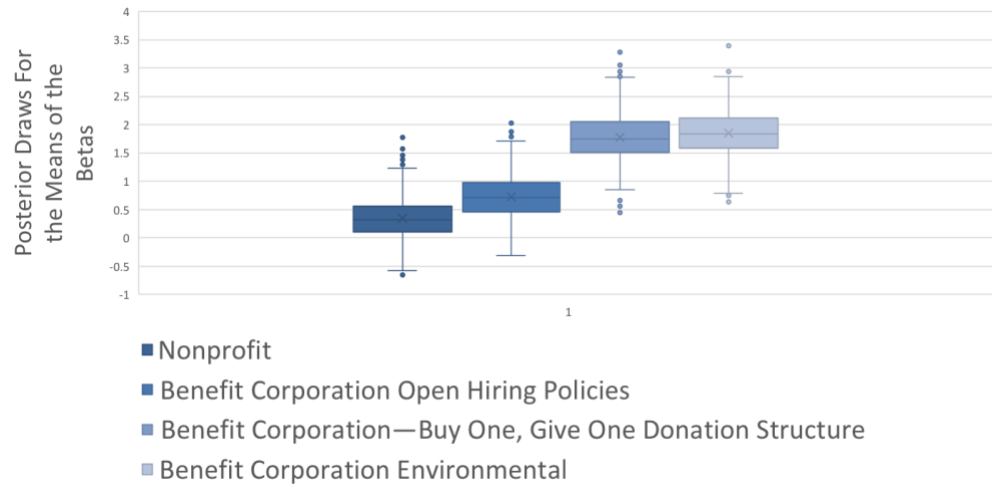


Figure 4 — Industry

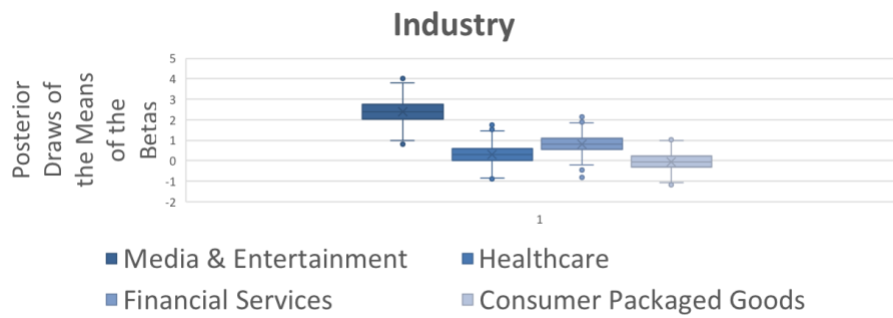


Figure 5 — Company Size

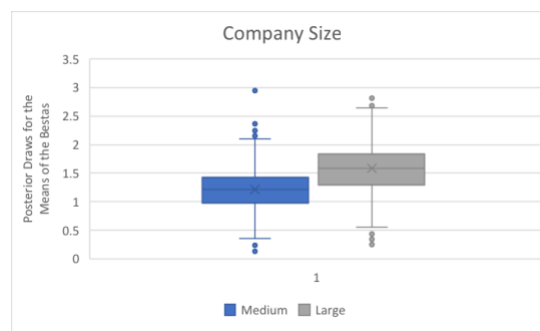


Figure 6 —Female Industry Preference

